

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON EDEN DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Eden District Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), and section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Eden District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Eden District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in

accordance with SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties (other than going concern)

10. As disclosed in note 44.7 to the financial statements, members of the Haarlem Community instituted legal action against Eden District Municipality claiming that they are lawful owners of the commonage in Haarlem and that the Council should have consulted the community when Council decided to call for tenders for the harvesting of the plantation on the property. They are claiming R35 000 000 from the municipality.

Restatement of corresponding figures

11. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during the 2009-10 financial year in the financial statements of the Eden District Municipality at, and for the year ending, 30 June 2009.

Unauthorised expenditure

12. As disclosed in note 41.1 to the financial statements, unauthorised expenditure to the value of R35 072 263 was incurred due to amendments made to comply with GRAP requirements. The municipality failed to budget for these requirements due to oversight by the leadership.

Irregular expenditure

13. As disclosed in note 41.3 to the financial statements, the municipality failed to conclude written contracts or, where necessary, service level agreements in respect of bids awarded via the supply chain management process. Payments made to these suppliers amounted to R71 912 060.

14. As disclosed in note 41.3 to the financial statements, fraudulent expenditure amounting to R1 997 857 was incurred by an official of the municipality. These monies are still in the process of being recovered from the official.

Material losses

15. As disclosed in note 41.4 to the financial statements, the municipality suffered significant water losses of 58 329 kilolitres (10% of water purified) with a value of R139 406 during the year under review due to the ageing of the municipality's infrastructure.
16. As disclosed in note 41.4 to the financial statements, the municipality suffered significant electricity distribution losses of 641 969 kilowatt hours with a value of R467 674 during the year under review.

Additional matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

18. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

19. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

20. As required by the PAA and in terms of General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, MFMA, Municipal Regulations (Regulations – GNR/GN), Division of Revenue Act, 2009 (Act No. 12 of 2009) (DoRA), Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), Municipal Structures Act, 1998 (Act No. 117 of 1998) and financial management (internal control).

Predetermined objectives

No reporting against predetermined objectives, indicators and targets

21. The Eden District Municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA. There has not been a proper system developed by management on how and when to report on the pre-determined objectives. Consequently early detection of underperformance and corrective actions will not be undertaken.

Compliance with laws and regulations

MFMA

Accounting officer did not adhere to his statutory responsibilities

22. Contrary to the requirements of section 95 (c) (ii) of the MFMA, the accounting officer did not take reasonable steps to ensure that internal audit comply and operated in accordance with prescribed norms and standards. No quarterly reports were submitted by internal audit and an approved internal audit manual is not in place.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

23. Contrary to the requirements of section 112 of the MFMA, the accounting officer did not take reasonable steps to ensure that municipality's supply chain management policy is in line with the MFMA as the supply chain policy did not address all the requirements of the MFMA.
24. Contrary to the requirements of section 116 of the MFMA, the accounting officer did not take reasonable steps to ensure that after approval of a bid, both parties sign a written contract or, if necessary, a service level agreement.

Expenditure was not paid within the parameters set by the applicable legislation

25. Contrary to the requirements of section 65(2) of the MFMA, expenditure was not paid within the required 30 days from the receipt of an invoice, or such a period as prescribed for certain categories of expenditure.

MSA

Internal auditing of performance measurements

26. Contrary to the requirements set out in section 45(b) of the MSA, the performance measurements of the municipality were not audited as part of the municipality's internal auditing processes.

INTERNAL CONTROL

27. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
28. The matters reported below are limited to the significant deficiencies regarding the basis for the opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Findings on compliance with laws and regulations

Leadership

- 29. There has not been a proper system developed by management on how and when to report on the pre-determined objectives. Consequently early detection of underperformance and corrective actions will not be undertaken.
- 30. Actions have not been instituted to address the internal control deficiencies relate to the audit findings of the previous period.

Financial and performance management

- 31. Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting which contributed to the pre-determined objectives not being prepared adequately for timely submission

Governance

- 32. The accounting officer did not ensure that the municipality identify risk relating to the achievement of performance reporting objectives.
- 33. Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial reporting and performance objectives. Consequently the internal audit unit did not perform its duties and responsibilities as set out in legislation.
- 34. The audit committee was only appointed in the last quarter of the year. Therefore the audit committee did not fulfil its responsibilities as set out in the legislation and in accordance with best practice.

OTHER REPORTS

Investigations in progress

- 35. An investigation is being conducted to probe the manner in which a service provider was allegedly appointed by the municipality to render consulting

electrical engineering services. The investigation aims to establish whether the supply chain management process was followed. The investigation was still ongoing at the reporting date.

Investigations completed during the financial year

36. An investigation was concluded which resulted in irregular expenditure disclosed in note 41.3 of the financial statements and reported in paragraph 14 of this report.

Cape Town
30 November 2010

AUDITOR-GENERAL
SOUTH AFRICA